

Request for Proposal Number 2P200204
Alternative Investment Program Advisor – U.S.
Questions and Answers

- 1. Regarding Legal Fees, is CalSTRS requesting that the advisor hire outside counsel for transactions or utilize in-house counsel for reviewing transactions?**

CalSTRS is requesting the Advisor to maintain access to legal counsel, either in-house or outsourced by the Advisor. The Advisor shall factor this legal service into their fee proposal.

- 2. The scope of the contract is not really clear, specifically the dollars that CalSTRS expects to commit to partnership investments and the number of investments contemplated per year for the length of the contract.**

CalSTRS expects to commit \$1 billion per year to existing relationships and to possibly 3 or 4 new relationships per year. The existing investment policy targets an allocation of 85% to U.S. investments including co-investments and secondary interests.

- 3. How will the roles of the two advisors be separated? Will we be duplicating each other's efforts or will we be working on independent assignments and, if so, how will those assignments be divided or allocated?**

If two advisors are selected, the aim is not to duplicate efforts and use the strengths of the respective advisors. Allocation of services to be provided will be based on the respective strengths of those firms.

- 4. We would like you to clarify Question 3, Section VI regarding our firm's capacity to analyze proposed partnership amendments for clients. Does this refer to negotiating partnership agreements prior to CalSTRS closing on the investment – or – analyzing subsequent amendments to the partnership agreement that are requested by the general partner?**

The intent is to have the Advisor analyze subsequent amendments to the partnership agreement that are requested by the General Partner.

- 5. Please confirm that the date in Section VI regarding Assets Monitored is June 30, 2001.**

The date is “as of June 30, 2001.”

- 6. In Attachment H – Proposal Questionnaire, Section II, Question D 3, you have asked for the Client Profile as of June 30, 2001. Please confirm this is the date you would like us to use.**

The date is “as of June 30, 2001.”

- 7. It has been reported that CalSTRS’ target for alternative investments is 8% of assets, an increase from the previous target of 5% of assets, and that the size of the total portfolio is expected to reach \$11 billion by 2006, up from approximately \$4.4 billion currently. To what extent will the higher target be achieved by (1) higher investment commitment amounts for each partnership commitment made; (2) a larger number of commitments generally; (3) a combination of #1 and #2.**

To date, the Alternative Investment portfolio contains only private equity investments. If no change is made to the portfolio, CalSTRS is aiming to commit \$1 billion per year to existing relationships and to possibly 3 or 4 new relationships per year. The existing investment policy targets an allocation of 85% to the U.S. including co-investments and secondary interests.

- 8. a) Based on the services delineated in Section F (Services To Be Provided), please describe in detail what the monitoring responsibilities of the Program Advisor will be, and whom will they be reporting to? And to what level of portfolio detail?**

b) Please clarify the portfolio monitoring role, listed separately under the heading Alternative Investments on the far right of the CalSTRS’ Organization Chart, Exhibit 11 of the RFP. How do you see the U.S. Program Advisor interfacing with this party?

(a) We expect the Program Advisor to monitor all previous North American private equity investments including co-investments and secondary interests from a qualitative perspective. PrivateEdge will provide all of the quantitative data. The Advisor will report to the AI consultant, McKinsey & Company and to the AI staff. (b) To date, CalSTRS has not appointed an Advisor to monitor the portfolio. It is possible that the Program Advisor will provide these monitoring services.

- 9. Once the new U.S. Program Advisor is selected, who will be the party responsible for monitoring the existing portfolio of investments?**

We expect the U.S. Program Advisor to monitor all previous North American private equity investments including co-investments and secondary interests from a qualitative perspective. PrivateEdge will provide all of the quantitative data. The Advisor will report to the AI consultant, McKinsey & Company and to the AI staff. It is possible that the Advisor will provide these monitoring services.

- 10. Under Section D – PURPOSE you have indicated that CalSTRS plans to execute contracts with a maximum of two (2) professional service providers with specialized expertise in the areas delineated in Section VI, Services To Be Provided. Did you mean Section F, not Section VI?**

Yes, please refer to Section F, Services to be Provided.

- 11. In Section D of the RFP, it states that CalSTRS plans to execute a contract with up to two U.S. Program Advisors to advise on U.S. Alternative Investments. If two are hired, will the investments mandates be distinct and separate or is there expected to be overlap between the mandates given to the two managers? For example, is it anticipated that one Advisor may be hired to focus on venture capital only and the other on buyouts only, or is it expected that both advisors will have a broad investment mandate? Under either scenario, how will the investment opportunity be allocated among the Advisors? And furthermore, how will the two Advisors interact?**

See answer to Question 3.

- 12. Could you please provide a list of U.S. funds in which CalSTRS is currently invested along with the inception date and commitment amount for each fund?**

We do not provide this information at this stage of the process. Once an Advisor is selected, this information will be given to the Advisor.

13. What is the anticipated role for the consultant in regards to evaluating potential new co-investments or in monitoring past ones?

It is expected that the Advisor will not be involved in reviewing and evaluating new co-investments. This is the role of the independent fiduciary. However, it is expected that the Advisor will be involved in reviewing and evaluating secondary interests.

The Advisor is expected to monitor all previous North American private equity investments including co-investments and secondary interests from a qualitative perspective.

14. Would it be possible to get a copy of CalSTRS' existing alternative asset investment guidelines?

The CalSTRS' Investment Policy is available on the CalSTRS website at <http://www.calstrs.ca.gov/>

15. How much does CalSTRS plan to invest in U.S. funds each year for the next 5 years?

See answer to Question 2.

16. How will the new U.S. alternative assets Contractor interact with State Street Private Edge, CalSTRS' portfolio data custodian? Would Private Edge continue to be retained if another consultant is hired?

The book of records is and will continue to be maintained by PrivateEdge for the quantitative part of the portfolio. If needed, PrivateEdge and CalSTRS staff will establish a process to provide required data to the Advisor.

17. How will the Contractor interact with McKinsey?

See answer to Question 9.

18. How likely is it that CalSTRS will hire only one firm for the U.S. alternative assets program advisor?

It is highly likely that only one firm will be selected for the U.S. alternative assets program advisor.

19. How frequently would you estimate the Contractor would meet in person with the investment staff?

We do not expect to have frequent meetings in person with the Advisor. The CalSTRS investment process is to have staff perform a review and conduct due diligence on each investment independent from the Advisor. Once staff and the Advisor reach concurrence to move forward with an investment, we expect the Advisor to have frequent interaction by phone with staff to negotiate business and legal terms and conditions until a successful closing is reached.

20. How will the Contractor interact with CalSTRS Investment Committee and Board? How frequently does the Committee meet? How frequently does the Board meet? What is the estimated number of meetings that the Contractor would be expected to attend?

It is not expected that the Advisor will attend a Board meeting where an investment is approved under delegation of authority. However, the Advisor may be called upon request to attend an Investment Committee meeting. The Investment Committee meets approximately 10 times a year. The CalSTRS Board meets the same number of times. It is unlikely that the Advisor will attend more than 2 or 3 meetings a year.

21. Please expand on how the Contractor might be asked to assist with legislative hearings. How often might this occur?

The Advisor may be requested to assist either AI staff or CalSTRS legal counsel at legislative hearings and provide expert advice. We do not know how often this may occur, however, it has not happened in the last 7 years.

22. Is there an objective to specifically meet strategic criteria such as local funds, minority owned firms, socially responsible investing, etc.?

This information is spelled out in the CalSTRS Investment Policy. See answer to Question 14.

Please review Section V Disabled Veteran Business Enterprise (DVBE) Contract Participation. Attachment E Statement of Commitment to Meet Disabled Veteran Business Enterprise Contract Participation Goals must be signed and included with your proposal. There is a 3% participation goal mandated by the State of California

which applies to all contracts. Small Business Participation is also encouraged as noted in the General Terms and Conditions of the RFP.

23. Does CalSTRS envision that the contract would be renewed if the Contractor is performing?

CalSTRS is required by the State of California to do a competitive process every 3 to 5 years.

24. Will the Contractor be requested to evaluate and help negotiate the key business terms and/or legal terms and issues of the partnership?

See answer to Question 19.

25. How will the Contractor be evaluated?

CalSTRS has a formal review process evaluating an Advisors investment recommendation performance. Other aspects are communication with other service providers, McKinsey & Company, the AI consultant, PrivateEdge, the book of records, and the AI staff.

26. What other services might be required?

Other services that may be required are the evaluation of secondary interests and other duties related to the services listed in Section F.

27. Could you please provide (or direct us to) a copy of the CalSTRS' Conflict of Interest Code (Title 2, California Code of Regulations, section 560 et seq.) concerning the Statement of Economic Interests of the assigned consulting team? We would like to find out how much personal financial information we would need to disclose.

All California Code of Regulations are located on <http://ccr.oal.ca.gov> .

28. The firm does maintain a drug-free workplace but does not have a formal Drug-Free Awareness Program as referenced in the RFP. Would this be part of the required contract? If we decided not to establish such a program, would we be disqualified from the consultant selection process?

By submitting and signing a proposal and or a contract with any state agency, the proposer/contractor is certifying that they have a drug free workplace and maintain this drug free workplace with new employee

orientation in some form and that their current employees continue to abide by these terms in the workplace.

29. Could you please provide (or direct us to) a copy of the New Hire Registry maintained by the California Employment Development Department?

Please visit website www.edd.ca.gov/txner.htm for this information.

30. With respect to question H.2.b.i. “bidders” preferences – small business preference,” our firm would like to obtain a copy of the regulation from the OSBCR. Please advise as to how best to contact the OSBCR.

Please visit their website at www.osbcr.dgs.ca.gov.

31. With respect to question H.2.b.ii. “TACPA: - our firm would like to learn the minimum requirements for receiving TACPA preference. Please advise as to how best to find this information.

Please visit their website at www.pd.dgs.ca.gov/edip/tacpa.htm for all the information regarding TACPA.

32. With respect to S.11 – our firm would like to obtain a copy of the Public Contract Code (PCC) in an effort to understand sections 12161 and 12200.

Public Contract Codes are located at www.leginfo.ca.gov .

33. With respect to Attachment A: should our firm complete the actual Attachment A form, or can we, provided the content is unchanged, reformat the document?

Please read Section H, Subsection 2, letter a. Fees in its entirety. Attachment A shall remain unchanged in any way, shape or form.

34. With respect to the Proposal Questionnaire: II. FIRM EXPERIENCE part B: the first column is titled: “Has your firm worked in this area in the last 3 years?” Our firm would like to know what is meant in this instance by “worked”?

What is meant by the question “Has your firm worked in this area in the last 3 years?” is that the qualifying firm must have at least 3 years of

experience reviewing, analyzing, negotiating terms and recommending private equity investments in the U.S.

- 35. With regard to services rendered, will the U.S. Program Advisor be required to monitor and report on US investments currently in the CalSTRS portfolio? If so, what are the current plans for conversion to the new program advisor from the current advisor. If not, who provides those services and how? The diagram in Exhibit 11 is unclear as to this relationship.**

See answer to Question 8.

- 36. If the plan for the US Program Advisor is to make and monitor private equity investments going forward, what are the plans for CalSTRS' annual investment pace in the US? What involvement would the US Program Advisor have in making and monitoring re-up investments with existing portfolio managers?**

See answer to Question 2.

- 37. Can you disclose the fee arrangement with Altius Associates Limited, your European Program Advisor? If so, what is the fee arrangement and the annual investment pace for Europe? If not, would it be possible to get a range of fees charged from other investment service providers to CalSTRS?**

No.

- 38. I believe Pathway is or was the current Private Equity Advisor to CalSTRS. What will their relationship be with CalSTRS going forward? Will this RFP and RFPs replace the broad array of services they provided previously by spreading them among a number of other firms?**

Pathway is the current Alternative Investments Advisor. If Pathway submits a proposal and is selected as the Alternative Investment Program Advisor – U.S., they would continue their services under the new process as defined in RFP No. 2P200204.